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C O N F I D E N T I A L SECTION 01 OF 02 SHENYANG 000245

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DEPARTMENT FOR EAP/CM, DRL

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SUBJECT: "ANT POWER" PROTESTS LEAVE LIAONING SIMMERING IN
THE COLD

REF: SHENYANG 220

Classified By: CONSUL GENERAL STEPHEN B. WICKMAN.

REASONS: 1.4(B), 1.4(D)

11. (C) SUMMARY: The political fallout from days of protests over a collapsed pyramid scheme involving hundreds of thousands of northeastern Chinese has put authorities in conservative Liaoning Province, and perhaps some in Beijing, in an uncomfortable political corner. Underreported in the Western press, the case of the collapse of the Yilishen Group has become--precisely because of its astounding scale--a steady topic of conversation in northeast China, implicating issues of corruption and the rule of law. Anger over the case continues to simmer, and its disposition will arguably be a litmus test for a region still struggling to shrug off the endemic corruption of years past. END SUMMARY.

THOUSANDS OF CHINESE TAKE TO THE STREETS

12. (SBU) By some accounts, several hundred thousand--and up to a million--residents in this province of some forty million have invested since 1998 in the Shenyang-based Yilishen Group's scheme, which centered on a network of ant farms supplying ant extracts for a number of widely-marketed health supplements (see ref A for full background). Over several days in late November, thousands of disillusioned investors who had sunk substantial chunks of their life savings in Yilishen took to the streets of Shenyang and neighboring cities of Liaoning Province to protest what they feared would be the impending bankruptcy of the company after it failed to pay scheduled dividends. Unusually, thousands of marchers descended on the provincial Party headquarters, as well as those of the provincial government, demanding official action, several eyewitnesses told us; meanwhile, online reports claimed that some snookered rural investors attempted suicide over fears that the bulk of their savings had disappeared for good.

KAFKA COMES TO SHENYANG

13. (SBU) The story evolved considerably, and quickly, last week. Official PRC news reports disclosed that Yilishen filed for bankruptcy in late November, generating further calls for the government to compensate investors. Then, in a bizarre, Kafka-esque twist, police in Shenyang arrested Yilishen's politically-connected chairman, Wang Fengyou, not for business-related reasons, but on charges of "instigating social unrest," according to the official Xinhua news agency. Xinhua alleged that Wang himself had

paid employees to "organize (the) protests outside of government buildings," leaving readers to conjecture that he simply wanted to deflect attention from Yilishen's own failures.

¶4. (C) Heavy PRC internet censorship of information relating to the case continues, but official media have broken their initial silence. Shenyang and Liaoning TV in recent days broadcast a long installment on the case, including footage of the protests, as well as interviews with a somewhat uncomfortable-looking Wang Fengyou (who admitted fault) and some of his employees (who also admitted to organizing the protests at Wang's behest). Why was never explained, and the emphasis was predictably on depicting Wang Fengyou as rogue. Most noteworthy was what was not mentioned: the use of force in some cases to disperse the protestors; the Good Housekeeping-type seals of approval, awards and licenses bestowed upon Yilishen by Bo Xilai's Ministry of Commerce, Li Keqiang's provincial party-government apparatus, and other organs over the years; or Wang Fengyou's links with officials current and past. Nor did it mention alleged bad blood, according to several online reports, between Wang Fengyou and the son of Liaoning Province's new Party Secretary (and former governor), Zhang Wenyue.

THE GOVERNMENT'S DILEMMA

¶5. (C) The case puts Liaoning authorities in a bad political corner, especially as they ready for their People's Congress--with important leadership changes scheduled--in January 2008. Wang Fengyou remains imprisoned, and the investigation officially continues, though whether it will result in additional charges against

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Wang remains unclear. Despite the authorities' kicking the can down the road by promising to address the issue in the spring, anger continues to simmer among hundreds of thousands of Liaoning residents, who are calling for compensation, as well as for the punishment of Wang Fengyou and complicit government officials. On the one hand, quickly-censored protestors have threatened further protests on online BBS boards, casting doubt both here and in Beijing on the province's social stability--embodied in the Hu Jintao-Wen Jiabao aim of "building a harmonious society." On the other hand, as some of our Chinese interlocutors point out, a government bailout--even within limits--would be a foolish precedent. They argue bluntly that the government ought not subsidize what they see as the "stupidity" of their countrymen, however destitute the affair has left them. Even without a bailout, "doing something" to calm public anger might entail exposing uncomfortable links between sitting government officials and Yilishen, further stoking public criticism.

¶6. (C) As a result of the preceding considerations, the government seems to have chosen to broker what may be a sweetheart deal with Wang. Speculation has it that Wang will take a cushioned "fall" for allegedly instigating the protests, but will face no bone-cutting penalties for his actual business-related transgressions. Wang presumably has some assets tucked away to enjoy after he is released from prison, while the government has its fall guy. If this turns out to be the case, Wang's fate will be much better than that of Wang Zhendong, the last person in this province to perpetrate such a scheme, also involving ants. Wang Zhendong was sentenced to death earlier this year.

¶7. (C) The Yilishen affair has not helped in Northeast China's struggle to step out from the shadow of the endemic corruption of years past. No ordinary Chinese we have come across can make sense of the bizarre charge against Wang for "instigating social unrest," nor have they found the media spin, much less the televised "confessions," terribly convincing. Shenyang Foreign Affairs Office officials told

us on December 17 that the government had convened a "small group" (i.e., interagency working group) to comb through Yilishen's assets and pay any legitimate claims by liquidating those assets, explaining that no government compensation would be given. But they added that bogus investor claims had already complicated matters. Skeptical Liaoning-ers are watching with interest.

WICKMAN